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SENSITIVE

DOE FOR MOLLY WILLIAMSON AND JOHN BRODMAN

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SUBJECT: MINISTER OF ENERGY ON GAS INVESTMENTS AND RESERVES

**¶1.** (SBU) Summary. Energy Minister al-Attiyah welcomed a possible visit by Secretary Bodman in November, telling senior officials from the Department of Energy "we will plan a good trip for him." Attiya discussed Qatar's investment plans with the DOE delegation and noted that Qatar expects to supply 30% of natural gas needs in the U.S. He said Qatar's gas is currently fully allocated, with no room for new projects in the next five years. He complained about the difficulty in obtaining approval for new LNG terminals in the U.S. and about state-to-state specifications for gasoline. He said there was enough oil on the market and the problem lay in refining capacity. At a lunch hosted by the Ambassador and in individual meetings, U.S. oil and gas executives expressed their satisfaction with Qatar Petroleum as a business partner and about Qatar's overall investment climate, which they rated as excellent. End Summary.

**¶2.** (SBU) Abdulla bin Hamad al-Attiyah, Second Deputy PM, Minister of Energy, and Chairman of Qatar Petroleum, discussed Qatar's energy investments with the Secretary of Energy's visiting Senior Foreign Policy Advisor, Molly Williamson, DOE DAS for International Energy Policy, John Brodman, and the Ambassador. Attiya characterized ExxonMobil's projects in Qatar as "big" and "interesting," noting that a new condensate refinery and a gas-to-liquids (GTL) facility total approximately \$17 billion. Investments in Ras Laffan Industrial City over the next five years will top \$50 billion, he said. Qatar's strategic plan includes supplying 30% of U.S. natural gas needs. Qatar has plans to purchase 75 LNG tankers, the largest ever built, to ship its product to Asia, Europe, and North America. He noted that several years ago, he had not expected that Qatar would be supplying the U.S. and Europe. Technology, however, helped reduce production costs and allow Qatar to expand its trains (LNG processing plants).

**¶3.** (SBU) U.S. companies investing in Qatar whose executives met with DOE officials -- ExxonMobil, Occidental, ConocoPhillips, and Anadarko -- were upbeat about the investment environment and the business outlook. All agreed that Qatar's growth makes investing here attractive. Conoco Phillips decided to locate its regional headquarters in Doha because doing so means "looking forward." Country managers described the investment climate as "healthy" and the outlook as "all good." They also agreed that business partnerships with QP are highly professional, better than with most other state-owned companies. They praised al-Attiyah for his efforts to institute transparency and intolerance for fraud or influence-peddling. The minister told Williamson that he is "trying to preserve ethics" in the industry, never deals with local agents or middlemen, and is on the lookout for corruption.

Security

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**¶4.** (SBU) QP provides "tight security" but only "on our area," Attiya said. The security of Persian Gulf waters are an international responsibility. He is not concerned about an attack in the Gulf, he said, because even Iran wants it to be secure. He said piracy in the vicinity of Indonesia was a greater concern. "History shows the Gulf was always safe," he concluded, because Gulf states are big oil and gas suppliers. U.S. oil and gas firms were comfortable with the level of security at Ras Laffan, the industrial site; they had also increased personal security procedures following the March 19 terrorist attack in Doha. But they acknowledged that they are in others' hands when it comes to security at offshore facilities.

Gas Reserves

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**¶5.** (SBU) Al-Attiyah said that QP had postponed several GTL projects in order not to draw down the North Field gas reserves too quickly. "We have to be careful," he said. QP is conducting a "professional study" of the field that will be ready in two years. The study will provide information on state of the gas in different parts of the field and will help chart its flow. He claimed that the North Field might have more gas than the 900 trillion cubic feet currently estimated. U.S. executives agreed with this assessment,

saying that the pace of investment would have been difficult to maintain for a variety of reasons and that it was prudent for Qatar to slow down and carefully monitor its resource.

Potential Customers on Hold

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16. (SBU) Al-Attiyah told the delegation that Qatar's gas has been allocated through the next five years and that QP cannot accommodate any additional customers or orders. "Upstream, everything is committed," he said. The Chinese "came late," and gas earmarked for them has gone instead to Australia. Gas earmarked for the Al-Khaleej Kuwait pipeline project was re-allocated to other markets, and in fact, according to U.S. executives in Qatar, QP would have difficulty honoring its agreement with Kuwait if Saudi Arabia were to remove its objections and allow the pipeline to Kuwait to go forward through its waters. Minister al-Attiyah said that the Qatari government, the Kuwaiti government, the USG and ExxonMobil did not spare any effort with the Saudis to convince them to approve the route of the pipeline, but this effort was in vain. Al-Attiyah added that just recently he raised the issue with Saudi Oil Minister Al-Noaimi, who said that there was no technical problem and that he will look into the matter. The Kuwaiti Oil Minister, Sheikh Ahmad Al-Fahd Al-Sabah, told al-Attiyah that there is no political will from the Saudi government to approve the project. Minister al-Attiyah connected Saudi disapproval of the project with dissatisfaction with the Al-Jazeera News Channel and liberal policies adopted by the Qatari government which embarrass the Saudis. Regarding the proposed pipeline to Bahrain, al-Attiyah's office director said that no gas is available. According to him, the Bahrainis did not respond to Qatar's proposals. If any pipeline were to be built, gas would have to be shifted from other projects that are already firmly agreed upon.

Terminals in the U.S.

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17. (SBU) Terminal capacity in the U.S. and numerous gasoline specifications were concerns for al-Attiyah. He said QP has a contract with Shell to supply gas to California through Baja California; he said it was not wise for California to become dependent in this way on its southern neighbor. California would be better served by its own offshore terminal. He also discussed his unsuccessful efforts with ExxonMobil to get a permit for a terminal in Florida to supply Electric Power and Light. Another option was to pipe gas to Florida from the Bahamas, but that had not been approved. Williamson told Attiya that the Energy Bill currently under discussion in Washington could resolve many of the difficulties surrounding permitting and various states' "boutique" gasoline formulas. ExxonMobil officials in Doha said that they were working closely with the Federal Energy Regulatory Commission to obtain a license for the "Golden Pass" terminal near Texas's border with Louisiana. The deadline for the deliberations is June 30.

Constraints on Business

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18. (SBU) U.S. firms operating in Qatar noted however that resource costs were increasing. In particular, steel and cement prices are rising rapidly, and along with them engineering and construction costs. Housing is becoming increasingly scarce and rents are rising out of control. The demand for services driven by the billions of dollars being invested in Qatar is the root cause. While problematic for the oil and gas companies, executives were aware that service firms also operate cyclically and are now enjoying an upswing after some tough years. Foreign firms are also grappling with the requirement for "Qatarization" of the workforce. While employing only up to 10% Qataris, firms had mixed results. In many cases, they were impressed with the skills of the Qatari managers. However, they noted that for new Qatari graduates, "training" is expected to be at the senior levels of management. Firms also have trouble finding, in the Qatari population of only 150,000, those recent graduates who have the proper degree and are in the job market.

Comment

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19. (SBU) Although Qatar does not currently supply the U.S. with any energy products, it has positioned itself to become an important energy partner. Qatar's strategy is to diversify in both investments and customers: it plans to supply North America, Europe, and Asia with roughly one-third of its gas each; it discusses investing in foreign oil projects such as Venezuela's, and it encourages reputable oil companies not yet in Qatar to invest. Qatar is also single-handedly changing the world natural gas market by making LNG a more-easily traded commodity like oil.

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